HOMES

Water bill and property tax arrears discovered after closing

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REAL ESTATE LAW

A few months after you purchase, the first bills may start to roll in. With anticipation you open the water bill and to your surprise and annoyance, the City indicates there is an amount owing from the previous owner. Your first thought is that the previous owner was trying to get out of paying their water bill or that the lawyer did not do their job properly. Likely, neither of these assumptions is true. The former owner most likely did not receive their bill, as it was not forwarded to their new address even though the lawyers would have notified the City, the sellers themselves also need to contact the City to provide their forwarding address for their final bills.

Bills such as water and property taxes are connected with the property, while utilities such as hydro and natural gas are connected with the consumer. As a property changes ownership, water and property taxes continue to accumulate charges to the account associated with the property and the owner's name is changed on the accounts. On the other hand, the accounts for hydro and natural gas are closed and new accounts under the new buyer's name are opened.

How should arrears on water bills be handled?

* If you buy a property and the previous owner needs to pay their account, contact your lawyer and provide them with a copy of the bill. Your lawyer will then contact the seller's lawyer to inform them of the bill and request that the previous owner pay the bill. If, after a specified time, the lawyer does not have a response, your lawyer can submit a claim to the title insurer. If you paid the bill to stop the interest accruing, the title insurer will reimburse you directly. If you did not pay the bill, the title insurer will pay the City plus any interest owing on the account.

* If you sell a property and hear from your lawyer that the buyer received a bill with an amount owing from the previous owner, make arrangements with the lawyer to pay the amount owing directly to the City or to provide a cheque in the buyer's name to your lawyer.

How should arrears on property taxes be handled?

It often occurs on a new construction that the property taxes need to be adjusted with the builder after closing. It takes several months for the City's property tax assessment corporation, MPAC, to assess the property taxes. Once the property has been assessed, the owner will receive a supplementary property tax bill.

* The new owner should always check the date the supplementary tax bill is covering. On a freehold home, the supplementary tax bill should begin on the closing date. If the bill begins before the closing date, contact your lawyer and your lawyer can work with the builder's lawyer to properly adjust the bill between the parties.

* More often than not, the builder will pay their portion of the bill to the new owners to reimburse them for paying the entire bill. Each builder has different policies in adjusting for property taxes. Therefore, when you receive your property tax bill, you can send a copy to your lawyer for clarification as to whether the taxes have been adjusted properly and how to go about being reimbursed.

Property tax arrears on existing homes are rarely an issue after closing because they are known and adjusted at closing. However, if property tax arrears from the previous owner are discovered, contact your lawyer. The lawyer can handle the adjustment in the same manner as a water account is adjusted.

Adjusting after closing for water accounts or for property taxes is very common. If all sides are cooperating, then the adjustment will be taken care of in a couple of days. However, if a title insurance claim needs to be submitted, the process could take a few weeks. Regardless of the timeline, remember to remain patient. The bill will be taken care of as quickly as possible.

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CAP Rates

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REAL ESTATE INVESTING

I came across a Facebook post last week where the original poster asked people what they thought the capitalization rate, more commonly known as CAP rate, was for Vanier and the reasons for it. It didn't take long for several people to jump in with their input and opinions. Some of the responses were bang on while others left me scratching my head. So, I thought I would the opportunity to provide some information about CAP rates in this article.

CAP Rate Background

I conducted a little research and learned that in 1959, L.W. Elwood published the Elwood Tables for Real Estate Appraising and Financing. This publication contained the formula Elwood created to evaluate properties and determine CAP rates. Elwood's original CAP rate formula was very complex and difficult to use and as a result many people tried to refine it and make it easier to use. Fast forward to 1990 which is when Ronald Gettel authored Good Grief, Another Method of Selecting Capitalizing Rates. This document contained a simplified method of calculating CAP rates that is widely used today by Realtors and appraisers:

CAP RATE = (NET OPERATING INCOME / ASKING PRICE) x 100

Here are a few other things you should know about CAP rates:

* The CAP rate is the metric used by real estate investors to compare different properties based solely on operating performance or Net Operating Income (NOI). Knowing the CAP rate of a particular building can help an investor make better decisions but it should only be one of the "tools" used to establish the approximate value of a property.

* The CAP rate can be used to find out if the asking price of a property is within the norm for the market place. If it is outside the norm, it means you may be paying too much or you may be getting a deal.

* CAP rates should be used when evaluating unique properties or industrial, commercial, and multi-family properties. CAP rates shouldn't be used for single family homes – investors should use sold comparables to determine the value of these properties.

* Remember that the CAP rate is only as good as the data provided by the seller and Realtor. For example, if the MLS listing sheet for a property is missing data or doesn't include actual income and expense numbers, the CAP rate will be incorrect.

* Learn how to calculate the NOI and remember that it doesn't include mortgage payments! Here is the formula that is used to calculate NOI.

NOI = GROSS OPERATING INCOME – GROSS OPERATING EXPENSES

* To find out the CAP rate for a specific neighborhood contact your investor focused Realtor or appraiser.

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